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*"January...  
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\$(81.8) million  
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January revised  
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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on February 27, 2009.

## Summary



January General Fund revenue collections were \$662.5 million, or (21.9)% below January 2008. This level of collections was \$(81.8) million below the January revised budget forecast.

The large January decrease of (21.9)% is especially significant given the low 2008 base. January 2008 collections were (14.4)% below January 2007, giving us a 2-year decline of (36.6)%.

For the first 7 months of FY 2009, General Fund collections are down (12.0)% when compared to last year (excluding Urban Revenue Sharing and one-time transfers). *(See Table 1 and page 2 for more information).* JLBC Staff had previously reported on these January results at the Joint Appropriations Committee meeting earlier this month.

The state's two largest revenues categories experienced significant declines:

- January sales tax collections were down (12.1)% compared to January 2008 and were \$(11.3) million short of the January forecast. January marked the 13<sup>th</sup> consecutive month of year-over-year reductions. The January results, which

represent December sales, reflect the third month of double digit declines in sales tax collections compared to the previous year.

- January individual income tax collections were down (30.8)% compared to January 2008 and were \$(57.7) million below the forecast. January's withholding tax collection decrease of (14.7)% was the largest decline since 1983.

The Legislature enacted a revised FY 2009 budget during the 1<sup>st</sup> Special Session in the last week of January. These revisions resolved a projected \$1.6 billion budget shortfall primarily due to lower than expected revenue collections. This shortfall was based on the January 4-sector consensus revenue estimate, including input from the Finance Advisory Committee (FAC), two University of Arizona econometric models, and the JLBC Staff forecast. This January revenue estimate was \$8.49 billion, which would be a (9.7)% reduction in base revenues compared to FY 2008.

Beginning with this [Monthly Fiscal Highlights](#), revenue collections are being measured against the newly enacted revised FY 2009 budget.

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Given the (21)% January revenue decline, revenues may fall further below the recently enacted budget forecast. As noted earlier, year-to-date revenues are (12)% below FY 2008. In comparison, the budget presumes a (9.7)% revenue decline. As a result, the JLBC Staff has notified the Appropriations Committees that they need to begin contingency planning for an additional budget shortfall. The potential shortfall could be as much as \$425 million, which would represent a (14)% decline in revenues.

This estimate does not represent a new forecast, but a planning figure in light of the January results. A more formal forecast will be available with the next meeting of the FAC, which is scheduled to occur in March.

**Economic Indicators** – The release of another month of economic data points to an economy that is rapidly deteriorating. Revised employment data reveals that job losses in Arizona in 2008 were significantly higher than previously estimated. Instead of shedding (116,500) jobs in 2008, as previously reported, the state experienced a loss of (152,300) jobs. The labor market worsened further in January and now the job decline is (5.9)% compared to the same month in the prior year, the largest contraction since April 1946 (see page 5). Building permitting activity in 2008 reached its lowest level since 1975. Air passenger traffic at Sky Harbor International Airport fell by (5.4)% in 2008, the steepest decline since 1980. The median price of a single family home in Greater Phoenix in January was (44.0)% below the level in the same month last year.

**JLBC/JCCR Meetings** – The Monthly Fiscal Highlights includes a summary of the February JCCR meeting (page 8). There was no JLBC meeting in February.

**February Reports** – The JLBC Staff released the following 2 reports in February:

### FY 2009 and FY 2010 Appropriations Limit

- The Arizona Constitution limits certain state spending to no more than 7.41% of personal income. The JLBC Staff has calculated that spending would be 6.1% of personal Arizona income under the revised FY 2009 budget and 6.6% under the FY 2010 JLBC Baseline. The Baseline represents the current spending level plus funding formula growth for FY 2010. Since spending is likely to be adjusted

downward to resolve the budget shortfall in FY 2010, the FY 2010 percentage is likely overstated.

### TNT Revisions

- The JLBC Staff released its calculation of the Truth in Taxation (TNT) adjustments to property tax rates. Each year the K-12 Qualifying Tax Rate (QTR) is adjusted to offset increases in the value of existing property. Based on the most recent information, assessed values are expected to increase by 10.8% in FY 2010, of which 4.2% would be due to new construction, and 6.6% to higher value of existing properties. Based on forecasted rates, the FY 2010 JLBC Baseline already included additional funding to ADE for Basic State Aid. These latest rates will result in a \$17.5 million downward adjustment in the JLBC Baseline.

## January Revenues

Table 1

General Fund Revenues Compared to Forecast and FY 2008 Collections (\$ in Millions)				
	<u>FY 2009 Collections</u>	<u>Difference From June '08 Forecast</u> <sup>1/</sup>	<u>Difference From Jan '09 Forecast</u> <sup>2/</sup>	<u>Difference From FY 2008</u>
January	\$ 662.5	\$ (264.6)	\$ (81.8)	\$ (185.8)
Year-to-Date	\$ 4,791.2	\$ (993.1)	\$ (81.8)	\$ (482.8)

<sup>1/</sup> Enacted FY 2009 budget (June 2008).

<sup>2/</sup> Revised JLBC Baseline

*"Sales Tax collections were...down (12.1)% compared to last January, and were \$(11.3) million below the budget forecast".*

**Sales Tax** collections were \$357.8 million in January. These revenues were down (12.1)% compared to last January, and were \$(11.3) million below the budget forecast. *Table 2* displays the January growth rates for the largest categories.

Table 2

Sales Tax Growth Rates Compared to Prior Year		
	<u>Jan</u>	<u>YTD</u>
Retail	(13.7)%	(11.0)%
Contracting	(18.6)%	(19.9)%
Utilities	1.3%	4.5%
Use	(3.8)%	(5.7)%
Restaurant & Bar	1.3%	(4.8)%

As noted in previous months, retail and contracting together account for two-thirds of all sales tax revenues. The retail sector decreased by (13.7)% and contracting fell by (18.6)%.

As noted in the table above, through January, taxable sales in the retail category are down (11.0)% from the prior fiscal year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail

category, which is down (5.9)%. The largest subcategory decline is in Motor Vehicles, which represents 21.1% of the total, and is down (32.3)% compared to the prior year. Taxable retail sales by category are shown in *Table 3*. (Eric Jorgensen)

**Individual Income Tax** collections were \$332.0 million in January, or (30.8)% below last year. January collections were \$(57.7) million less than the budget forecast. *Table 4* displays January and year-to-date growth rates for individual categories.

Table 4

Individual Income Tax Growth Rates Compared to Prior Year		
	<u>January</u>	<u>YTD</u>
Withholding	(14.7)%	(3.9)%
Estimated +	(42.6)%	(25.8)%
Final Payments		
Refunds	42.6	20.5%

Historically, January represents the second largest month for individual income tax collections after April. On average, 13.3% of

Table 3

### YTD (7-Month) Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>% Change Over FY 2008</u>
General/Misc. Merchandise	30.4%	(5.9)%
Motor Vehicles/Misc. Auto.	21.1%	(32.3)%
Bldg Materials and Supplies	7.5%	(13.6)%
Food and Liquor Stores	7.4%	(2.4)%
Furniture, Home Furnishings	6.9%	(14.2)%
Clothing and Accessories	5.8%	(12.0)%
Manufacturing	5.6%	(10.5)%
Other Subcategories	<u>15.4%</u>	<u>4.3%</u>
<b>Total</b>	<b>100.0%</b>	<b>(11.0)%</b>

## January Revenues (Continued)

net collections accrue in January compared to 14.4% in April. In light of this, January's net revenue decline of (30.8)% is a cause for concern. In terms of the individual categories of the tax, January's withholding decline of (14.7)% was the steepest since March 1983.

The (42.6)% decline in estimated and final payments in January brought the level of collections for this category to \$112.5 million, the lowest amount for this month in 5 years. Estimated and final tax payments for the first 7 months of FY 2009 were \$400.4 million, which represent a decline of (25.8) % from last year. On a cumulative basis, tax payments are considerably below the levels recorded in any of the 3 preceding years.

Refunds increased by 42.6% in January. While this was a large percentage increase, it is important to note that January refunds typically comprise less than 3% of total refunds for the year. Thus, it is too early to draw any inferences regarding refunds from this month alone. (Hans Olofsson)

**Corporate Income Tax** collections were a negative \$(3.5) million, as refunds exceeded payments. This level is \$11.0 million higher than

January 2008, but was \$(16.9) million below the revised budget forecast for the month. (Martin Lorenzo)

The **Lottery Commission** reports that ticket sales for the month of January were \$47.1 million, which was \$8.9 million higher than sales in January 2008. Year-to-date, ticket sales are up 1.5% compared to last year. Through January, a total of \$25.2 million in lottery revenues has been deposited into the General Fund.

*"U.S. Consumer Confidence Index for February declined from 37.4 to 25.0, the third straight month with a new record-low number for the index."*

## Economic Indicators

### NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** for February declined from 37.4 to 25.0, the third straight month with a new record-low number for the index. Consumer confidence is now down by (67.3)% compared to a year ago. According to the Conference Board, increasing concerns about business conditions, employment and earnings have brought the index to its lowest level ever.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** in the U.S. fell by (12.4)% between November and December last year, from \$3.1 billion to \$2.7 billion. This was the third largest decline in semiconductor sales in the last 32 years. SIA attributed the large decline to the "global economic recession."

The Conference Board's **U.S. Index of Leading Economic Indicators** increased by 0.4% in January. Year-over-year, the index is down by (2.9)%. Five of the 10 components that make up the index advanced during the month. As reported previously, the increase in the index is not the result of improved economic conditions but rather the outcome of recent Fed policy, which has produced an increase in money supply.

The **U.S. Consumer Price Index** increased by 0.3% in January. January was the first month-over-month increase of the index since September 2008. The CPI increase in January was primarily due to a 1.7% increase in energy prices. Compared to the same month last year, the CPI is down by (0.2)%.

## Economic Indicators (Continued)

### ARIZONA

*“According to the U.S. Census Bureau, a total of 17,762 single-family residential building permits were issued in Arizona in 2008, the lowest level since 1975.”*

The most recent release of state economic data clearly indicates that conditions are rapidly deteriorating. This is especially evident from newly revised employment data released by the Arizona Department of Commerce. This annual revision (commonly referred to as “benchmarking”) revealed that more jobs were lost in 2008 than previously estimated. Under the old estimate, the State of Arizona lost (116,500) jobs in 2008, or (4.3)% of its workforce. The benchmarking of employment data showed that the actual job loss in 2008 was 35,800 higher than previously estimated or (152,300) in total.

The Department’s most recent *Workforce Report* indicates that job losses continued to increase in January. According to this report, the state shed (155,400) jobs in January compared to the same month in the prior year. This equates to a year-over-year job decline of (5.9)%, the sharpest contraction since April 1946 when job losses were reported to be (7.1)%.

The data revision also revealed that the **construction sector** fared more poorly in 2008 than previously assumed. The benchmarked data showed that the state lost on average (4,000) more construction jobs per month last year than previously reported. The trend of job losses carried over into the new calendar year as the construction sector shed another (9,800) employees in January. The construction sector now employs (47,600) fewer workers than a year ago. To provide some perspective, the current number of construction employees (153,100) in the state is roughly the same as in January of 1999.

The benchmarking process showed that the **manufacturing sector** lost on average (3,600) more jobs per month in 2008 than previously estimated. This means that instead of a 2008 job loss of (2.4)%, as previously reported, manufacturing employment decreased by (4.0)% last year. With the industry paring another (2,300) jobs in January, the state’s total manufacturing employment of 168,500 is now comparable to the level in June of 1993.

The employment services sector is a segment of the labor market that has been disproportionately affected by the state’s

deteriorating economy. This sector lost (42,000) jobs, or a third of its workforce, from the peak in September 2006 to January 2009. Year-over-year, the industry declined by (24.1)% in January.

January marked the 10<sup>th</sup> consecutive month with rising unemployment. Revised data shows that the state’s **unemployment rate** increased to 7.0% in January, a 0.4% increase from the prior month. This is the highest unemployment rate in the state since January 1993.

The Department of Commerce reported that 39,076 **initial claims for unemployment insurance** were filed in January, an increase of 100.2% over last year. The total number of initial jobless claims in January was the highest on record.

According to the U.S. Census Bureau, a total of 17,762 **single-family residential building permits** were issued in Arizona in 2008, the lowest level since 1975. In percentage terms, single-family permitting activity fell by (52.8)% between 2007 and 2008. During the height of the housing construction boom in 2004 and 2005 more than 80,000 permits were issued annually. The multi-family sector also performed poorly in 2008. Census data shows that 7,470 **multi-family permits** were issued in the state last year, a (37.6)% decline from the level in 2007. The last time fewer than 7,000 multi-family permits were issued in the state was in 1993.

According to ASU’s January report, foreclosures continue to have a negative impact on the Greater Phoenix housing market. In terms of existing **single-family homes**, ASU reported that a total of 6,960 homes were sold in Greater Phoenix in January. Nearly half of these resales (48.4%) were for previously foreclosed properties. Compared to the same month last year, traditional resales are up by 49.3% and foreclosed sales by 87.2%.

The large volume of foreclosed homes on the market is taking its toll on home prices. According to the January report, the Greater Phoenix **single-family median resale home price** was \$136,000 for traditional homes and \$135,055 for foreclosed properties. These figures represent a year-over-year price

## Economic Indicators (Continued)



decline of (44.0)% and (35.2)%, respectively. At the height of the housing boom in June 2006, the median resale price was \$267,000.

The **S&P/Case-Shiller Home Price Index** is a measure of the change in housing prices based on repeat sales. According to the most recent release of this measure, home prices in Phoenix fell month-over-month by (5.1)% in December. Compared to last year, housing prices are down by (34.0)%. Phoenix home prices have fallen by (45.5)% since the peak in June of 2006.

Based on MLS data, January had an 8.8 **months supply of housing**, the same as in the prior month. The comparable figure last year was 14.7 months. As reported previously, this housing inventory measure may be currently understated due to the large number of foreclosed homes not included in the MLS database.

A total of 39.9 million passengers entered and exited aircraft at the **Phoenix Sky Harbor International Airport** in 2008. This was a decrease of (5.4)% from the prior year and the sharpest decline in passenger traffic since 1980. The total number of individuals that either enplaned or deplaned at Sky Harbor last year was roughly comparable to the level in 2004.

**AHCCCS caseloads** in February increased to a total of 1,165,019 members, a 4.4% increase over the prior month. At current levels, the AHCCCS caseloads are 7.5% above January 2008 levels. The revised FY 2009 budget funded a projected caseload growth of 7.8%, or a total of 1,234,901 members.

There were a reported 86,965 **TANF recipients** in the state in December, an increase of 3.1% from the prior month. Year-over-year, caseload is up by 6.4%. The FY 2009 budget assumes the TANF caseload will grow by 2.5%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In December, there were a total 773,083 food stamp recipients in the state, an increase of 3.2% over the prior month. Compared to the same month last year, food stamp

participation was up 24.5%.

The **Department of Corrections' (ADC) inmate population** increased by an average of 77 inmates per month between November and January. ADC now has an average population of 39,572 inmates, or 1,838 more inmates than in the same period last year. (Hans Olofsson, Martin Lorenzo)



## Economic Indicators (Continued)

Table 5

### ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	January	7.0%	0.4%	2.6%
- Initial Unemployment Insurance Claims	January	39,076	13.6%	100.2%
- Non-Farm Employment – Total	January	2.49 million	(2.9)%	(5.9)%
Manufacturing	January	168,500	(1.3)%	(4.3)%
Construction	January	153,100	(6.0)%	(17.5)%
- Contracting Tax Receipts (3-month average)	Nov-Jan	\$58.2 million	(2.5)%	(22.7)%
- Retail Sales Tax Receipts (3-month average)	Nov-Jan	\$149.9 million	8.7%	(14.2)%
- Residential Building Permits (3-month moving average)				
Single-unit	Oct-Dec	722	(15.6)%	(54.5)%
Multi-unit	Oct-Dec	294	(40.8)%	(64.6)%
- Greater Phoenix Existing Home Sales				
Single-Family, Traditional Sales	January	3,590	(16.8)%	49.3%
Single-Family, Foreclosed Sales	January	3,370	8.4%	87.2%
Townhouse/Condominium, Traditional Sales	January	335	(23.9)%	(40.2)%
Townhouse/Condominium, Foreclosed Sales	January	280	(1.8)%	100.0%
- Greater Phoenix Median Home Sales Price				
Single-Family, Traditional Sales	January	\$136,000	(6.8)%	(44.0)%
Single-Family, Foreclosed Sales	January	\$135,005	(9.0)%	(35.2)%
Townhouse/Condominium, Traditional Sales	January	\$125,000	(8.9)%	(29.0)%
Townhouse/Condominium, Foreclosed Sales	January	\$104,745	(12.4)%	(32.9)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	December	123.93	(5.1)%	(34.0)%
- Months Supply of Housing, (ARMLS)	January	8.8 months	(0.0) months	(5.9) months
- Phoenix Sky Harbor Air Passengers	December	3.2 million	7.1%	(2.3)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	November	\$7.95	40.2%	(21.5)%
- Consumer Confidence Index (1985 = 100)	1st Quarter 2009	44.2	N/A	(58.4)%
- Business Leaders Confidence Index	1 <sup>st</sup> Quarter 2009	32.1	(24.3)%	(20.5)%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2008	\$214.8 billion	(0.3)%	2.2%
- Arizona Population	July 1, 2008	6.50 million	146,759	2.3%
- AHCCCS Recipients	February	1,165,019	4.4%	7.5%
- TANF Recipients	December	86,965	3.1%	6.4%
- SNAP (Food Stamps) Recipients	December	773,083	3.2%	24.5%
- DOC Inmate Growth (3-month average)	Nov-Jan	39,572	77 inmates	1,838 inmates
<b>United States</b>				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	4 <sup>th</sup> Quarter 2008	\$11.5 trillion	(6.2)%	(0.8)%
- Consumer Confidence Index (1985 = 100)	February	25.0	(33.2)%	(67.3)%
- Leading Indicators Index (2004 = 100)	January	99.5	0.4%	(2.9)%
- U.S. Semiconductor Billings (3-month moving average)	Oct-Dec	\$2.70 billion	(12.4)%	(26.2)%
- Consumer Price Index, SA (1982-84 = 100)	January	212.174	0.3%	(0.2)%

## JCCR Meeting

At its February 24, 2009 meeting, the Joint Committee on Capital Review considered the following issues:

**Universities – Review of University Lottery Bond Projects – Building Renewal** – The Committee gave a favorable review of \$103.1 million (Arizona State University \$13.2 million; University of Arizona \$51.4 million; and Northern Arizona University \$38.5 million) for the Universities' remaining Building Renewal projects. These issuances represent a portion of the \$800 million University Lottery Bonding package as authorized by the FY 2009 Education Budget Reconciliation Bill. The proposed debt service is designed to be funded with 2 separate revenue streams. Approximately \$11.2 million, or 80%, will come from state Lottery proceeds, while \$2.8 million will come from local university funds.

**University of Arizona – Review of Residence Halls and Residence Life Building Renewal** – The Committee gave a favorable review to the University of Arizona for its proposal to spend \$159.3 million in system revenue bonds to construct two new residence halls and \$37.3 million in system revenue bonds for residence life building renewal projects. For both issuances, the proposed debt service will be paid from dorm rental revenues, for a cost of \$11 million from FY 2010 to FY 2011 and a cost of \$14.7 million starting in FY 2012.

**Maricopa County Community College District – Review of General Obligation Bond Issuance** – The Committee gave a favorable review to the issuance of \$220 million in general obligation bonds. At the June 22, 2004 meeting the Committee gave a favorable review to the entire \$951.4 million bond proposal, with the provision that the Maricopa County Community College District (MCCCD) return for Committee review prior to each issuance. The voters of Maricopa County subsequently approved the district's bond program in November 2004. The district has already issued \$430.3 million in bonds.

**Arizona State Lottery Commission – Review of FY 2009 Building Renewal Allocation Plan** – The Committee gave a favorable review to the Lottery Commission's FY 2009 Building Renewal Allocation Plan totaling \$68,000 from the State Lottery Fund. The commission plans to use the funds to install a new fire suppression system.

**Arizona Department of Administration – Consider Recommending Partial Rent Exemption for the Department of Revenue** – The Committee recommended the \$7,900 partial rent exemption for the second half of FY 2009 requested for the Department of Revenue (DOR).

## Summary of Recent Agency Reports

**AHCCCS – Report on Graduate Medical Education Residency Positions** – The Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the number of new residency positions. The report discusses the positions created by the additional \$4,000,000 GF (\$12,000,000 Total Funds) in the FY 2007 budget. The agency indicates that the increased appropriation provided partial funding for an additional 422 residency positions in FY 2008, an increase of 78 positions over FY 2007. AHCCCS provided a portion of the funding for these positions, with the remaining funding coming from other sources such as Medicare and the hospital's own funds. Of the 422 newly-funded positions, 31 are located in rural areas. The FY 2009 budget revisions reduced funding for Graduate Medical Education by \$7,000,000

GF (\$20,517,000 Total Funds). (Amy Upston)

**AHCCCS – Report on Systematic Alien Verification for Entitlements Program** – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), verified the immigration status of 18,543 individuals between July 1, 2008 and September 30, 2008. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. (Amy Upston)





## Summary of Recent Agency Reports (continued)

### State Department of Corrections –

Report on Bed Plan – The State Department of Corrections (ADC) has provided a report to JLBC Staff with updated information related to their bed plan. Highlights of the report are as follows:

- ADC anticipates awarding a new contract for up to 1,200 out-of-state provisional beds by the end of February 2009.
- ADC is not going to renew the Community Accountability Program contract, which expires July 17, 2009, due to the cost, performance and success rate of the current vendor. According to ADC, between April 1, 2006 and January 31, 2009, 468 violators were referred to the program. Of this amount, 145 offenders satisfactorily completed the program, 18 offenders are currently participating in the program, and 305 offenders failed to complete the program. ADC anticipates releasing an RFP for a new contract in February 2009. (Martin Lorenzo)

### Arizona Criminal Justice

#### Commission – Report on Criminal Justice Enhancement Fund –

Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to provide an annual report by December 1 on Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. In FY 2008, CJEF revenues totaled \$48.0 million and the total funds available (including the beginning balance and adjustments) for the fiscal year was \$66.5 million. In FY 2008, CJEF revenues grew by 4.1%. (Jon McAvoy)

### Arizona Criminal Justice

#### Commission – Report on State Aid to County Attorneys Fund and

Indigent Defense – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditures of monies for the prior fiscal year in the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8 each year.

In FY 2008, the State Aid to County Attorneys Fund was allocated \$1.2 million. The State Aid for Indigent Defense Fund was allocated \$1.1 million.

ACJC reports that counties used the monies in 3 main areas: additional staffing to process more cases, technological purchases to improve case management, and specialized courts such as DUI/drug courts and early disposition courts. The ACJC report states that although Fill the Gap funding increased, case processing times have not met the Supreme Court guidelines. (Jon McAvoy)

### Commission for Postsecondary

#### Education – Report on

Postsecondary Education Grant Program – A.R.S. § 15-1855 requires the Commission for Postsecondary Education to report annually on its Postsecondary Education Grant (PEG) program.

The PEG program provides grants to students attending private postsecondary institutions. The program was launched in March 2007. In FY 2008, a total of \$3.9 million was disbursed to 2,442 grantees representing 23 private postsecondary schools. According to the commission, there was a waiting list of unfunded PEG students at the end of FY 2008 due to budget reductions. (Marge Zylla)

### Arizona Department of Public Safety

#### – Quarterly Report on GIITEM –

Pursuant to Laws 2008, Chapter 285 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). In the second quarter of FY 2009, DPS spent or encumbered \$4.0 million of the monies appropriation for the DPS immigration staff. During the second quarter, DPS did not spend any of the \$10 million for FY 2009 local law enforcement grants. Currently, the agency is spending the remaining portion of the non-lapsing FY 2008 appropriation. (Martin Lorenzo)

### Supreme Court – Report on Criminal Case Processing and State Aid to

the Courts Fund – The Supreme Court is required to report on the Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund annually by January 8.

In FY 2008, statewide court revenue collections increased by \$23.5 million, or 6.6%, to \$382.0 million. Total case filings increased by 5.4%. In FY 2008, a total of 63,443 criminal cases were filed in Superior Courts throughout the state, which represents an increase of 2.8% over FY 2007. (Jon McAvoy)

### Supreme Court - Report on Arizona

Lengthy Trial Fund -The Supreme Court is required to report annually on the Lengthy Trial Fund (LTF). The fund is intended to reimburse jurors who lose their regular employment income while serving as jurors. In FY 2008, LTF revenues totaled \$835,800 and the total reimbursement for trials was \$518,300. In FY 2008, 760 jurors serving on 211 trials were paid from the LTF. (Jon McAvoy)

## Summary of Recent Agency Reports (Continued)

**Department of Water Resources – Assured and Adequate Water Supply Fund** – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Water Resources (DWR) has submitted the amount of fees collected by the Assured and Adequate Water Supply (AAWS)

program. The AAWS Administration Fund consists of monies that are paid to the DWR for applications related to assured and adequate water supplies. DWR reports that for the quarter ending December 31, 2008, the department collected \$141,800. This amount is \$(10,400), or (6.8)%,

below collections for the same period in FY 2008. (Leah Kritzer)

## Other Issues

**State Appropriations Limit** – A.R.S. § 41-1273 requires JLBC Staff to annually report on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Including 1<sup>st</sup> special session adjustments, total FY 2009 state appropriations (both General and Other Funds) would be \$13.65 billion, or 6.10% of personal income. The FY 2010 JLBC Baseline includes spending of \$14.65 billion, which is 6.57% of personal income.

Revenues subject to the limit include: 1) taxes, 2) university collections, and 3) licenses, fees, and permits. These revenues may either be deposited in the General Fund or used for a dedicated purpose. The following appropriated revenues are not subject to the limit: 1) interest and dividends earnings, 2) sales, rentals, and service receipts, 3) federal grants, 4) gifts and donations, and 5) monies received by the state as a trustee, custodian, or agent.

**Truth in Taxation K-12 Property Tax Rates** – A.R.S. § 41-1276 requires the JLBC Staff to annually calculate and report the Truth in Taxation (TNT) adjustments to the K-12 property tax rates. The K-12 property tax rates consist of the Qualifying Tax Rate (QTR) and the State Equalization Tax Rate (SETR). Pursuant to Laws 2006, Chapter 354, the SETR was suspended from FY 2007 through FY 2009. The JLBC Baseline assumes the

repeal of the SETR in FY 2010. Each year these rates are adjusted to offset increases in the valuation of existing property, with the intended result of producing no change in statewide property tax liability.

Based on the most recent information submitted by county assessors, statewide primary assessed values are expected to increase by 10.8% in FY 2010, of which 4.2% would be due to new construction, and 6.6% would be due to the higher value of existing properties. The TNT adjustment is made to only offset growth in the assessed valuation of existing property.

Since the state share of K-12 education costs depends on the amount of revenues generated from the QTR, any reduction in this rate requires the state to provide the Arizona Department of Education (ADE) with additional funding for Basic State Aid. Based on the forecasted rates, the FY 2010 JLBC Baseline already included additional funding to ADE for Basic State Aid. Due to the difference between the forecasted and actual rates, the JLBC Baseline would need to be adjusted downward by \$17.5 million to reflect the revised rates.

# State of Arizona

## General Fund Revenue:

### Change from Previous Year and January Baseline Forecast January 2009

	Current Month					FY 2009 YTD (Seven Months)				
	Actual January 2009	Change From				Actual January 2009	Change from			
		January 2008	Forecast				January 2008	Forecast		
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	357,760,734	(\$49,121,006)	(12.1) %	(\$11,297,566)	(3.1) %	\$2,359,077,154	(\$276,185,526)	(10.5) %	(\$11,297,566)	(0.5) %
Income - Individual	331,952,295	(147,664,454)	(30.8)	(57,681,469)	(14.8)	1,986,643,751	(263,741,229)	(11.7)	(57,681,469)	(2.8)
- Corporate	(3,464,715)	11,038,587	--	(16,897,815)	--	301,198,910	(98,369,166)	(24.6)	(16,897,815)	(5.3)
Property	668,751	77,489	13.1	668,751	--	10,689,137	(495,337)	(4.4)	668,751	6.7
Luxury	6,210,585	501,385	8.8	533,292	9.4	35,812,524	(226,486)	(0.6)	533,292	1.5
Insurance Premium	309,663	122,370	65.3	309,663	--	163,725,328	11,293,165	7.4	309,663	0.2
Estate	21,020	13,676	186.2	21,020	--	125,333	(142,789)	(53.3)	21,020	20.2
Other Taxes	88,866	25,334	39.9	41,866	89.1	355,975	5,252	1.5	41,866	13.3
<b>Sub-Total Taxes</b>	<b>\$693,547,199</b>	<b>(\$185,006,619)</b>	<b>(21.1) %</b>	<b>(\$84,302,258)</b>	<b>(10.8) %</b>	<b>\$4,857,628,112</b>	<b>(\$627,862,116)</b>	<b>(11.4) %</b>	<b>(\$84,302,258)</b>	<b>(1.7) %</b>
<b><u>Other Revenue</u></b>										
Lottery	1,483,600	(845,300)	(36.3)	0	0.0	25,210,000	5,866,381	30.3	0	0.0
License, Fees and Permits	2,739,945	414,160	17.8	(231,855)	(7.8)	19,666,446	(1,143,100)	(5.5)	(231,855)	(1.2)
Interest	457,034	(6,974,461)	(93.9)	(1,594,066)	(77.7)	9,545,719	(54,763,057)	(85.2)	(1,594,066)	(14.3)
Sales and Services	8,383,183	523,725	6.7	857,483	11.4	27,384,658	(3,094,756)	(10.2)	857,484	3.2
Other Miscellaneous	2,817,174	(1,686,032)	(37.4)	1,175,374	71.6	24,966,035	7,392,341	42.1	1,175,373	4.9
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,304,476	972,248	41.7	2,304,476	230.4	25,346,941	(6,122,553)	(19.5)	2,304,476	10.0
<b>Sub-Total Other Revenue</b>	<b>19,185,412</b>	<b>(7,595,660)</b>	<b>(28.4) %</b>	<b>2,511,412</b>	<b>15.1 %</b>	<b>132,119,799</b>	<b>(51,864,744)</b>	<b>(28.2) %</b>	<b>2,511,412</b>	<b>1.9 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$712,732,611</b>	<b>(\$192,602,279)</b>	<b>(21.3) %</b>	<b>(\$81,790,846)</b>	<b>(10.3) %</b>	<b>\$4,989,747,911</b>	<b>(\$679,726,860)</b>	<b>(12.0) %</b>	<b>(\$81,790,846)</b>	<b>(1.6) %</b>
<b><u>Other Adjustments</u></b>										
Urban Revenue Sharing	(60,639,783)	(3,594,872)	6.3	0	0.0	(424,478,483)	(25,164,109)	6.3	(2)	0.0
Budget Plan Transfers	10,375,000	10,375,000	--	0	0.0	225,921,792	222,045,613	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(50,264,783)</b>	<b>6,780,128</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>	<b>(198,556,691)</b>	<b>196,881,504</b>	<b>-- %</b>	<b>(2)</b>	<b>0.0 %</b>
<b>TOTAL REVENUE</b>	<b>\$662,467,828</b>	<b>(\$185,822,151)</b>	<b>(21.9) %</b>	<b>(\$81,790,846)</b>	<b>(11.0) %</b>	<b>\$4,791,191,220</b>	<b>(\$482,845,356)</b>	<b>(9.2) %</b>	<b>(\$81,790,848)</b>	<b>(1.7) %</b>